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IN REPLY REFER TO

OTS 730.3A

December 23, 2002
02-OTS-075(R)

MEMORANDUM FOR REGIONAL DIRECTOR, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance Memorandum: Overcoming Barriers to Electronic Submissions

We prepared the enclosed Question and Answer paper to address some of the barriers to electronic submissions of contractor proposals. The paper is not intended to be an overall answer to all problems related to obtaining proposals electronically. It is intended to consolidate existing information that may assist in obtaining electronic submissions.

Background

Earlier this year, the Regions and Field Detachment completed an analysis of a draft DMIS definition (reference MRD No. 02-OTS-001, subject: Contractor Electronic Submissions, dated January 16, 2002). The memorandum also required the FAOs to survey contractors and identify barriers to electronic submissions and potential solutions. From this survey information, we identified the most frequent barriers and have prepared the enclosed Question and Answer paper to address these concerns.

Our concern for tracking electronic submissions results from the DoD paperless contracting initiatives. In support of the DoD initiatives, DCAA established a Strategic Plan Objective to increase the number of contractor submissions received in electronic form. Currently, we recognize that some external barriers exist that may prevent us from obtaining all submissions electronically. However, there are some barriers that we can overcome. We can work with contracting officials and contractors to obtain submissions that are primarily electronic and can be used for audit purposes with little or no manual manipulation.

Analysis of Barriers and Solutions

We have consolidated and analyzed the information provided by FAOs in response to MRD No. 02-OTS-001. From the analysis, we prepared the enclosed question and answer paper. Some of the barriers will be difficult to resolve until the DoD paperless initiatives mature and regulations and processes are modified to facilitate electronic submissions. However, in the interim, we can identify and resolve some barriers that are not affected by the regulatory process.

The primary barriers identified are as follows.

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1. **Software and Data Incompatibilities:** The incompatibilities covered a broad range of software, including pricing models, accounting systems, office suites, and DCAA's ICE (Incurred Cost Electronically) model. Contractors stated that their software could not export data compatible with DCAA's software.
2. **Communication:** The contractor did not know that DCAA preferred the submission electronically. In many cases, once the contractor was aware of DCAA's preference, they stated that they could provide submissions electronically.
3. **Skills and Resources:** A number of contractors stated that a lack of skills and resources prevented them from preparing submissions electronically.
4. **Government Requirements:** Some contractors responded that the contracts and requests for proposals required submission by means other than electronic. Until the contracting officials required electronic submissions, they were reluctant to prepare electronic submissions for DCAA.
5. **Other Barriers:** The other categories of barriers included security of proprietary data, the volume of data, and transmission and encryption concerns.

Summary

The electronic business environment is a continually evolving process and some of the barriers identified by the survey will be resolved through future changes to the business processes. In the meantime, we encourage all auditors to continue to pursue obtaining submissions electronically so we can take advantage of the Agency's technological advances. We will continue to monitor progress and will issue additional guidance as necessary.

Suggestions should be forwarded through the Regional offices and addressed to Headquarters, OTS. Regional questions regarding this memorandum should be addressed to Stan Arnold, Program Manager, Technical Audit Services Division, Operations Directorate at (703) 767-2271 or stan.arnold@dcaa.mil. Questions regarding audit policy and access to data should be addressed to Bob Carico, Auditing Standards Division, Policy and Plans Directorate at 703-767-3274 or bob.carico@dcaa.mil.

/s/

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Enclosure:
a/s

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Barriers to Contractor Electronic Submissions

Questions and Answers

GENERAL QUESTIONS:

Why do we want an electronic submission?

In October 1993, President Clinton initially mandated Executive Branch Agencies and Departments to begin using Electronic Commerce (EC). A year later, Congress passed the Federal Acquisition Streamlining Act of 1994 that required the entire Federal Government to begin using EC. The Federal Government expects the use of EC to increase the efficiency of the Government's procurement process, to reduce cost, and to eliminate paper.

In November 1997, the Secretary of Defense released the Defense Reform Initiative Report (DRIR) introducing the principles of Electronic Business (EB). The report stated that "a full commitment to electronic business operations will not only result in tangible savings, but will also change the DoD's business culture, forcing managers to think differently and act more efficiently." Thus, by using EB principles, the concept of EC has been propelled beyond the EC standards process.

In May 1998, the Deputy Secretary of Defense, John J. Hamre, released Department of Defense Reform Initiative (DRID) #43 –Defense-wide Electronic Commerce. The purpose of DRID #43 was to provide leadership and operational direction and established a DoD Joint Electronic Commerce Program (JECPP), which will further the exchange of information critical to both the warfighter and supporting business processes of the Department.

DCAA has embraced the initiative and added several objectives to the Strategic Plan. One of the objectives under Goal #2 required that the Agency "... increase the number of contractor submissions received in electronic form...." In the long run, using electronic submissions allows us to audit more productively by reducing the re-keying of existing data, by facilitating the use of statistical sampling, etc.

What qualifies as an "electronic submission?"

To meet the DoD definition of an "automated transaction," DCAA must receive a submission that can be incorporated directly into the audit process without manual manipulation, such as re-keying data into a spreadsheet. Most electronic submissions should be documents or files that can be directly processed through DCAA's Microsoft Office Suite products (Word, Excel, or Access). However, other electronic files (Adobe PDF, scanned documents, etc.) may be adequate if they can be used in their original electronic format for audit purposes (evidential matter, etc.). In August 2002, we modified the DMIS definition for an electronic submission to bring it in line with DoD initiatives.

A contractor's submission transmittal is considered an "E" – Electronic Transmittal when it meets the following criteria:

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- 1) *The initial submission is provided primarily via electronic media, i.e., diskette, CD-ROM, e-mail, on-line access, or other acceptable media; excluding any documents required in paper form by the procurement process, such as a signed document.*
- 2) *The submission meets the “adequacy” requirements defined by CAM 6-707 and 9-200 for cost proposals and incurred cost submission.*
- 3) *The submission, including subsequent supporting data, is provided primarily via electronic media and can be processed for audit purposes without additional manual efforts, such as re-keying data into a spreadsheet. The data must be in an acceptable format for processing on DCAA computers, such as word processing files, electronic spreadsheets, databases files, PDF files, scanned images of supporting documents, etc. Other electronic files (such as ASCII) that can be used intact or readily converted to a usable form shall also be considered electronic.*

A submission that is mailed, faxed or otherwise delivered primarily in hard copy format to the FAO will be coded as "P" - Paper Transmittal. If the contractor provides additional data via electronic media during the audit process, an initial determination of "P" may change to "E" before assignment closure.

If the contractor provides a paper submission and I scan it, is it considered an electronic submission?

No. In order to be considered electronic, we require a submission that can be imported into and processed by DCAA software without significant manual effort. Scanned images cannot be processed by DCAA software; they can only be viewed.

Are there times when it would be proper to scan paper documents?

Yes. The auditor must provide sufficient evidential matter in the working papers to support audit findings and exceptions. Our preference is to obtain electronic copies of the evidential matter. However, if a document is not available electronically, you can scan the paper document if it can reasonably be included in the working papers. Auditor judgment should be used to determine when it is proper either to scan a document or include a paper copy in the working paper file. The auditor must judge each document on its own merits and intended use, such as number of pages (affects size of the electronic working paper file), intended use of the scanned document (if used for litigation, it will require special care to ensure its legibility and authenticity), etc.

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ACCESS TO DATA ISSUES:

Should the DCAA auditor ask for the contractor's data and submissions in electronic format?

The answer is always Yes. DoD's policy, as stated in The Department of Defense (DoD) Electronic Business/Electronic Commerce (EB/EC) Program Directive, DoDD 8190.2, dated June 23, 2000, is to "foster and promote the integration of EB/EC technologies into reengineered or improved business processes" EB/EC should be promoted among all business partners, the contractor and Government organizations to foster shorter cycle times by providing information in electronic form to the right person/activity at the right time. This would free up both contractor and Government manpower resources involved in the exchange of data and provide for quicker action/responses. By providing data and submissions electronically, the contractor will achieve savings in manpower time and cost. It will also experience quicker action/settlement of issues and claims. This will allow for the quicker payment of monies due and better contractor management of its resources. In summary, the provision of contractor data and submissions in electronic format will improve a contractor's cash flow, reduce its manpower needs and costs, and improve its management and operational efficiency.

Does the Government have the right by contract or by regulation to require the preparation of proposals or other data in electronic format?

Not under today's regulations and standard contract terms. While a PCO may elect to insert in an RFP a requirement that the proposal and supporting data be submitted in electronic media, there are no standard contractual terms or statutory or regulatory provisions that require a contractor to prepare its proposals or other data in electronic format. The closest the FAR goes is the specification in FAR 52.215-20 Requirements for Cost or Pricing Data or Information Other Than Cost or Pricing Data of an Alternate III clause to be used where the CO wants the support for the cost portion of a proposal to be submitted in "electronic media." This language isn't really a standard as such since it leaves it up to the individual CO to insert the details regarding what specific media he requires. The audit statutes and the implementing contract clauses are silent regarding the form of contractor submissions. None obligate the Contractor to prepare incurred cost proposals, price proposals, claims, or other data in electronic format.

Where a contractor does, in fact, prepare proposal and supporting data electronically, must that electronic proposal and data be made available in electronic format to the Government?

In some cases, Yes. Price proposal solicitations by either sealed bid (FAR Part 14) or negotiations (FAR Part 15) require the contracting officer to insert in solicitations and contracts the Audit and Records Clause, FAR 52.215-2 for negotiated contracts, and FAR 52.214-26 for

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*Sealed Bidding. The two FAR clauses, FAR 52.215-2 and FAR 52.214.26, give the Government (DCAA) the right to **reproduce** (emphasis added) the contractor's electronic records, including the electronic version of the proposal/submission and underlying electronic data used to prepare a paper version of a proposal. Specifically, the FAR contract clauses provide that:*

- *A contractor has to “make available at its office at all reasonable times the **records**, materials, and other evidence . . . for examination, audit, or **reproduction**, until 3 years after final payment under this contract or . . .” (FAR 52.215-2(f) & FAR 52.214-24(d)).*
- ***Records** are defined as “books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form.” (FAR 52.215-2(a) & FAR 52.214-26(a))*

The foregoing contract rights may be difficult to enforce during negotiations prior to award. There is no contract until award. On the other hand, incurred cost submissions and pricing proposals for modifications to awarded contracts are clearly subject to the requirements in these clauses of said contracts.

If the contractor uses the obsolete Standard Form 1411 to transmit its price proposal, the Table 15-2 provisions at FAR 15.408 would apply and require the contractor to provide a provision in its price proposal granting the contracting officer or his authorized representative the right to access its records. However, the Table 15-2 provisions do not give the government the express right to reproduce records, but that failure is overcome by the legal precedent set by the decision in the Kleinschmidt case legal decision.

If a contractor refuses to allow DCAA access to its electronic submissions or other records what should be done?

Depending upon the circumstances, the refusal may or may not be subject to the procedures in CAM 1-504.5, Resolution of Contractor Denials; a section which emphasizes working with contractor personnel to quickly resolve the issue. The best approach to obtaining contractor cooperation is to point out the benefits the contractor can expect by providing access to the Government (see the answer to the question above on “Should the DCAA auditor ask for the contractor's data and submissions in electronic format?”) If the contractor cannot be convinced to voluntarily provide the electronic records, the auditor should determine whether the records are the type of contractor electronic records and submissions to which DCAA has legal access (see the answer to the question above on “Where a contractor does, in fact, prepare proposal and supporting data electronically must that electronic proposal and data be made available in electronic format to the Government?”). If so, the auditor should follow the procedures in CAM 1-504.5, which may ultimately lead to a request to Headquarters to subpoena the records.

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SOFTWARE/DATA INCOMPATIBILITIES BARRIER:

The contractor says their accounting or pricing software cannot produce data that is compatible with DCAA's software. Is this true?

This is most likely a lack of understanding about the capabilities of their software or ours (although there may occasionally be exceptions). Most commercial software and systems provide the ability to export data in a format that can be imported into or read by DCAA's software (Microsoft Office Suite, ICE, SAS, etc.). Some software applications can export a file in a specific format such as Excel, while other applications may only export a file in ASCII format. However, any of these types of files are usable and can be imported into our audit software applications usually without significant manual intervention.

Can I get help resolving the software and data problems with the contractor?

Yes. Per guidance in CAM 4-503[Organizational Support of Auditing Using IT], the Agency provides several layers of IT support. If the expertise does not exist at the FAO, DCAI has several courses that address software and data issues (e.g., CAATs, SAS, Statistical Sampling, etc.) We encourage the development of expertise in the use of electronic files at the FAO level and we are developing additional training and seminars to meet these needs. If the problem cannot be resolved locally, the FAO should contact their Region's special programs office for assistance. Additionally, Regions can request assistance from the Technical Support Branch (OTST) or the Technical Audit Services Division (OTS) as required.

COMMUNICATION BARRIER:

We want to obtain electronic submissions, but where do we start the process?

The best place to start is with the contracting officer. FAR 15.404-2(a)(3) encourages contracting officers to team with the appropriate field experts throughout the acquisition process. Early communication with the contracting officer ensures that the needs of all team members are addressed and communicated to the contractor. If we work with the contracting officer early in the process, the requirement for electronic data (and the format, media, etc.) can be made a part of the RFP and contract clauses.

Discussions with contractors also provide an excellent opportunity. Two of the best opportunities occur during the entrance conference that precedes every audit and in the annual conferences with contractors to discuss the Program Plan for the upcoming year. Many contractors have stated that they were unaware of our preference for electronic submissions, and effective communication was the only barrier to obtaining them.

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The contractor says they are unaware that DCAA prefers an “electronic submission.” How can we ensure that the contractor understands our requirements?

The best way is to communicate our requirements as early as possible through correspondence, meetings, pre-award surveys, annual meetings to discuss the Program Plan with contractor management officials, and other audit-related effort. Recently, the Great Lakes Branch Office (GLBO) went to extraordinary efforts and held a seminar for sixty-five contractors. The audit staff invited contracting officials to participate and provided presentations and discussions on electronic submissions, DCAA’s ICE (Incurred Cost Electronically) model, and other DoD electronic business initiatives. GLBO reported that the seminar was successful in exchanging information and getting a better understanding of all parties’ needs.

SECURITY OF PROPRIETARY DATA BARRIER

The contractor is concerned about electronic submissions and the possibility that their submission will be changed by the Government. How can we assure them that the proposal will be protected in its electronic format?

The contractor can provide the submission in a read-only format. This can be done several ways. One way is the contractor can password protect the document or spreadsheet. This prevents us from changing the original data, but allows us to open a read-only copy of it.

Another way to protect the submission, is for the contractor to provide the submission on a read-only Compact Disk (CD-R). Therefore, the contractor can be assured that the original submission will remain unchanged on the CD-R, but the DCAA auditor can copy the data to another file for audit processing and analysis.

SECURITY AND ENCRYPTION OF DATA TRANSMITTAL BARRIER

The contractor is concerned about security when transmitting their electronic submission via e-mail. What is the solution to e-mail security?

DoD provides non-DoD personnel (primarily vendors) Public Key Infrastructure (PKI) certificates through the Interim External Certificate Authority (IECA) program. DoD trading partners (vendors) can use IECA certificates to transact electronic business with the DoD. Certificates may be used in certain DoD electronic commerce programs, specifically the Defense Travel System, Wide Area Workflow Program and Electronic Document Access as part of a cost-saving move toward paperless contracting. Specifically, IECA certificates are used to authenticate parties in electronic transactions, encrypt messages, replace ink signatures in some instances and provide non-repudiation.

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Who can get an IECA certificate?

Non-DoD personnel, including contractors and vendors, who can identify a need to interact with the DoD via one of the programs listed above, can apply for IECA certificates to conduct business electronically with the DoD.

Why should the contractor get an IECA certificate?

Getting an IECA certificate will enable the contractor to reduce cycle time and increase the efficiency of their business transactions with the DoD. This is accomplished through converting from paper-based to electronic contracting in DoD electronic commerce programs including the Defense Travel System, Wide Area Workflow Program and Electronic Document Access. The IECA certificate enables the DoD to authenticate the contractor in electronic transactions, and can be used in place of an ink signature in some instances. Additionally, the IECA certificates assure the contractor that their transactions, e-mails, and data are protected.

How can a contractor obtain an IECA certificate?

The Defense Information System Agency (DISA) maintains a website that provides information about External Certificate Authorities (ECAs) and the Interim ECA pilot projects. The URL for the website is <http://www.disa.mil/infosec/pkieca/index.html>. External Certificate Authorities are commercial entities that provide certificate services that are interoperable with the DOD PKI to non-DOD personnel. Currently, three commercial vendors are listed on the DISA website. The list provides a link to the ECAs' websites where instructions and pricing information are available. The application process varies by ECA but generally requires a notarized application and a fee that ranges from \$119 to \$250 per certificate.